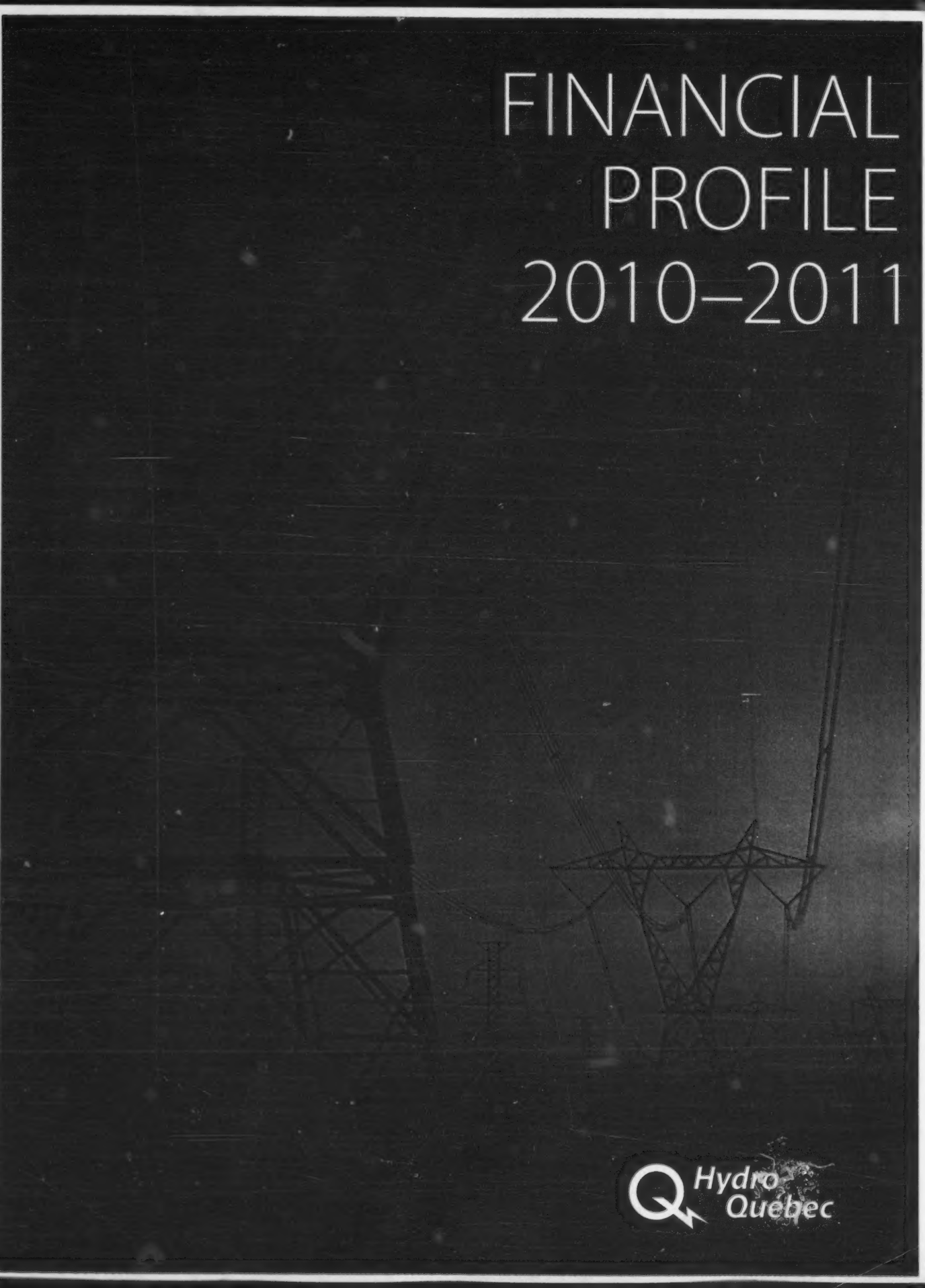
FINANCIAL PROFILE 2010–2011



Hydro Québec

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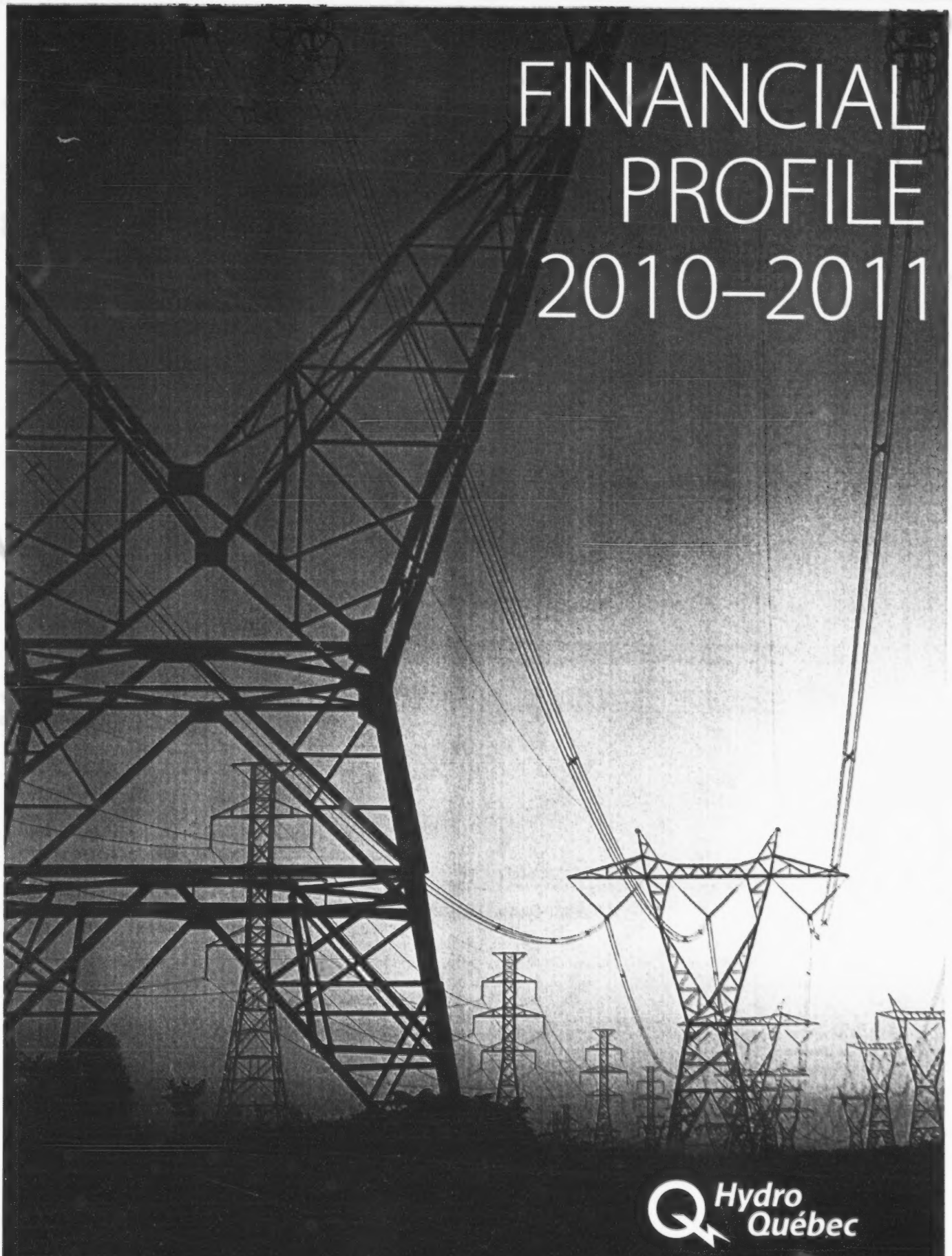

Hydro Québec

EXECUTIVE SUMMARY

The *Financial Profile 2010–2011* describes Hydro-Québec's financial position, financing and debt management. It also provides certain estimates.

Highlights of the report:

- Despite well-below-average runoff, the company posted a strong performance in 2010 with net income of $2,515 million.
- The dividend for 2010 amounts to $1,886 million.
- Hydro-Québec is actively pursuing the development of Québec's hydroelectric potential. The Romaine and Eastmain-1-A/Sarcelle/Rupert jobsites are the two largest construction projects in Canada. The company's assets total nearly $66 billion.
- To finance a portion of its investments, Hydro-Québec turns to the bond market. For several years, our annual financing needs have been approximately $2.5 billion and have been met exclusively on the Canadian market. Financing needs for 2011 are roughly $3.5 billion.
- Hydro-Québec's borrowings, which consist mainly of debentures and medium-term notes, are nearly all guaranteed unconditionally by the Québec government.

1 Message from the Vice President, Financing, Treasury and Pension Fund

Hydro-Québec Is...

4 At a Glance
5 Hydro-Québec Production
6 Hydro-Québec TransÉnergie
7 Hydro-Québec Distribution
8 Integrated Enterprise Risk Management
9 Comparison of Electric Utilities in North America

Financing

11 Financing Objectives and Strategies and Debt Management
12 Debt Maturity 2011–2050
14 Financing Needs 2006–2010
15 Breakdown of Debt by Repayment Currency 2006–2011
16 Breakdown of Total Debt by Fixed and Floating Rate 2006–2010
Evolution of Components of Total Debt 2006–2010
17 Average Maturity of Debt 2006–2010
18 Sources of Financing
19 Guarantee of Hydro-Québec's Debt
Issuance of Debentures in 2010
20 Financial Ratios
21 Credit Ratings

22 Financial and Risk Management Officers
24 Hydro-Québec's Generating Facilities
Glossary
Cue Card 2010–2011

PROSPECTIVE INFORMATION

This document contains statements of a prospective nature. They entail risks and uncertainties which may mean that Hydro-Québec's actual future results may differ from those forecast. These factors include, but are not limited to, competition, the economic environment, the business environment and Hydro-Québec's ability to achieve its strategic business objectives. Consequently, these prospective statements must in no way be interpreted as guarantees or assurances from Hydro-Québec as to its future results.

CURRENCY

Unless otherwise indicated, monetary amounts are expressed in Canadian dollars.

MESSAGE FROM THE VICE PRESIDENT, FINANCING, TREASURY AND PENSION FUND

Exceeding Objectives

In 2010, despite well-below-average runoff, Hydro-Québec recorded net income of $2,515 million—exceeding the projection in its *Strategic Plan 2009–2013* by $115 million. This strong performance will allow us to pay our sole shareholder, the Québec government, a dividend of $1,886 million.

Sound decisions enabled us to manage the year's issues efficiently and take advantage of business opportunities on all our markets:

- Because the precipitation that fills our reservoirs was well below the historical mean, we cut back our net exports in the latter half of the year. Nonetheless, net exports, which accounted for 7% of our net sales volume, generated 17% of net income for the year.
- As a result of careful control over our energy market transactions and risks, the unit contribution of our exports rose to 8.2¢ per kWh in 2010, compared with 6.8¢ per kWh in 2009.
- Efficiency gains enabled the company to absorb annual indexation and inflation of our operating expenses as well as additional expenses associated with growth in operations.
- The recovery of the industrial sector in Québec, particularly in pulp and paper and smelting and refining, meant that income was higher than projected.
- Under our ongoing capital program, we invested nearly $4.2 billion in the expansion, reliability and long-term operability of our generating, transmission and distribution facilities.

CONTINUING TO DEVELOP HYDROPOWER POTENTIAL

Development of our generating capability is continuing as planned. Accordingly, the 918-MW Eastmain-1-A/Sarcelle/Rupert hydroelectric development should be fully commissioned by the end of 2012. On the site of the future Romaine complex, our efforts focused mainly on Romaine-2 generating station, slated to come on stream in 2014. This 640-MW facility will be the largest in the Romaine complex, which will add 1,550 MW to our system once completed.

Our development strategy is based on tapping Québec's hydropower potential. This allows us to meet growing demand for clean, renewable energy.

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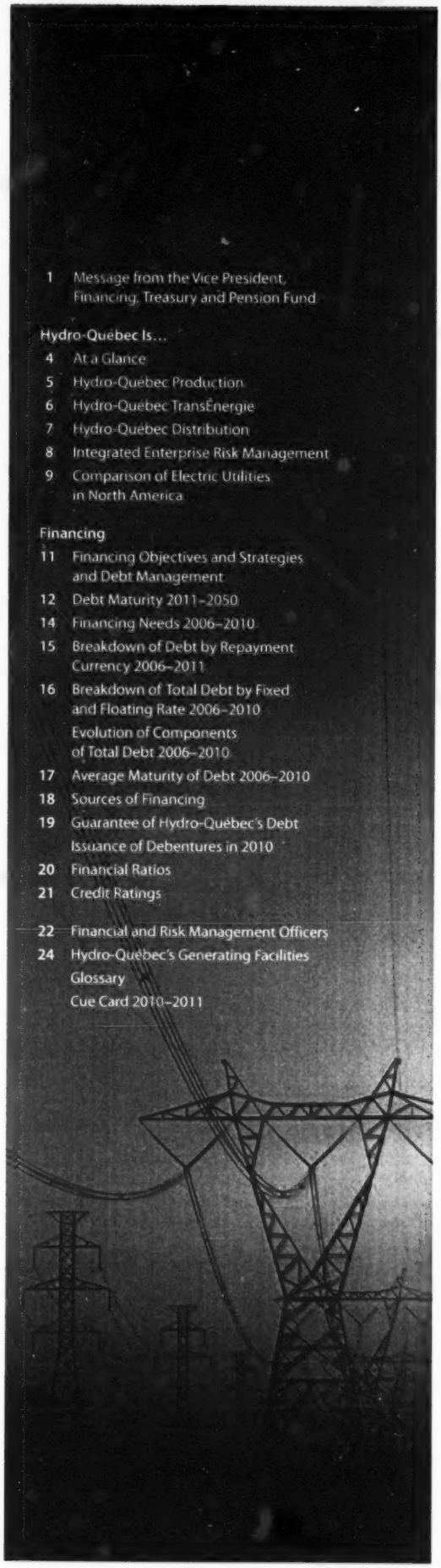

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" Our borrowing programs will begin to grow in 2011, and will total approximately $3.3 billion in each of the next three years, while investments will be around $5.0 billion annually over the same period. "

CAPITALIZING ON THE TRANSMISSION SYSTEM

In 2010, we invested $1.2 billion in connecting new hydropower and wind facilities to the grid and refurbishing transmission lines and substations.

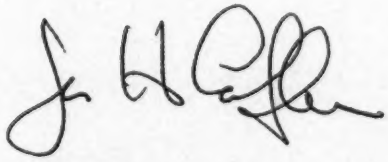
To bolster transmission capacity with New England, we signed a transmission service agreement last October with two major power distributors. The agreement gives Hydro-Québec transmission rights on a 1,200-MW line to be built between the Canada–U.S. border and southern New Hampshire. Subject to the necessary approvals, construction of the line should get under way in 2013, with commissioning scheduled for 2015.

FINANCING MAJOR INVESTMENTS

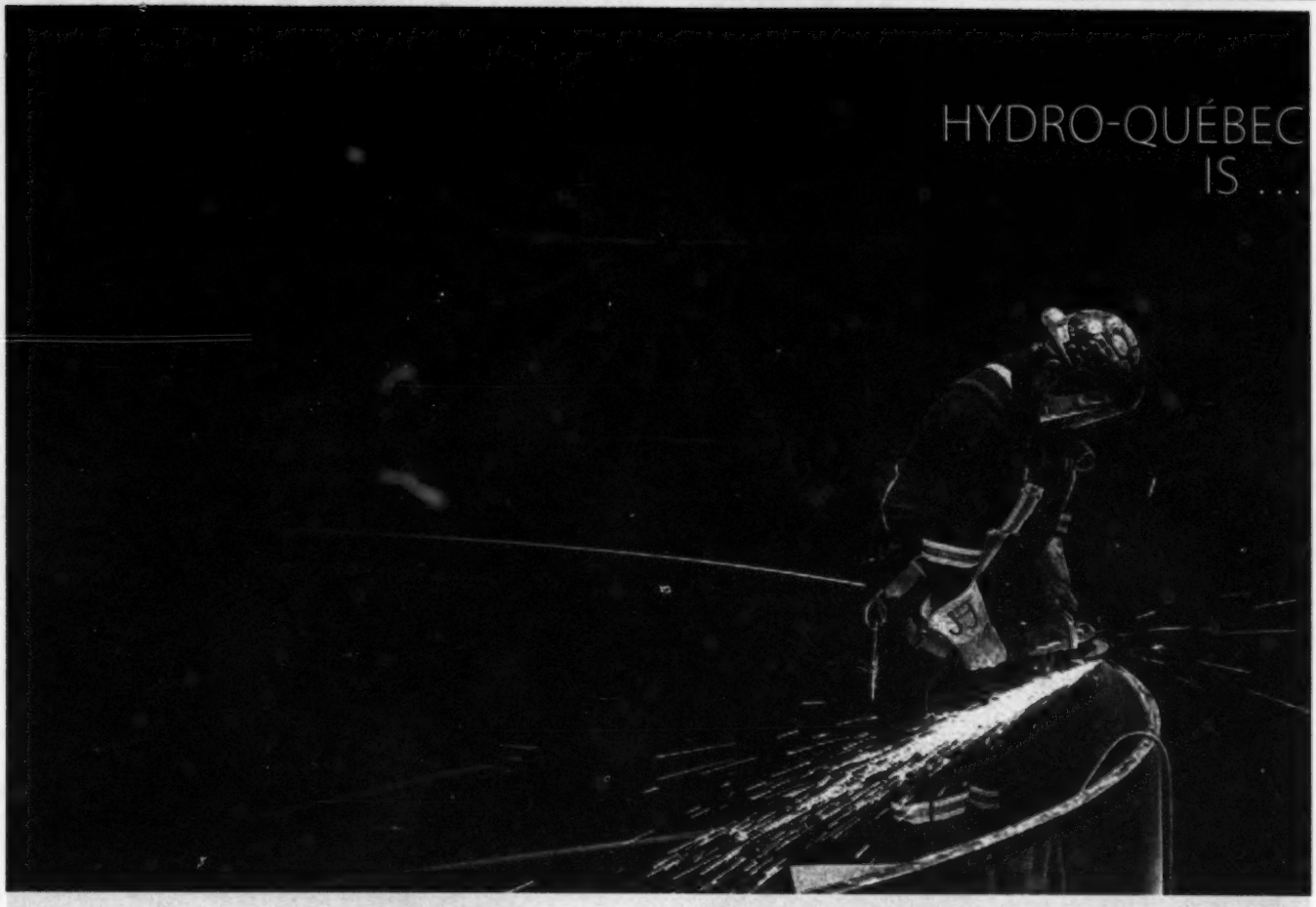
Hydro-Québec's borrowings totaled $1.6 billion in 2010 as we continued to take advantage of low long-term interest rates and strong market receptiveness to bonds with maturities of more than 30 years. As in previous years, all debt issues were completed on the Canadian market, which still offers the most favorable financing costs. Our borrowing programs will begin to grow in 2011, and will total approximately $3.3 billion in each of the next three years, while investments will be around $5.0 billion annually over the same period.

HOLDING COURSE

We are well satisfied with the 2010 results and our financial ratios. We plan to carefully apply strategies appropriate to the current conditions, while steering a steady course toward our financial targets.



Jean-Hugues Lafleur
Vice President, Financing, Treasury and Pension Fund



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Hydro-Québec generates, transmits and distributes electricity. It serves the Québec market and sells its surpluses on wholesale markets in northeastern North America. Over 40% of Canada's water resources are in Québec. This major asset enables Hydro-Québec to opt for hydropower—a clean, renewable energy source.

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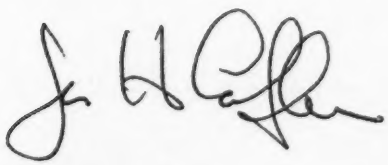

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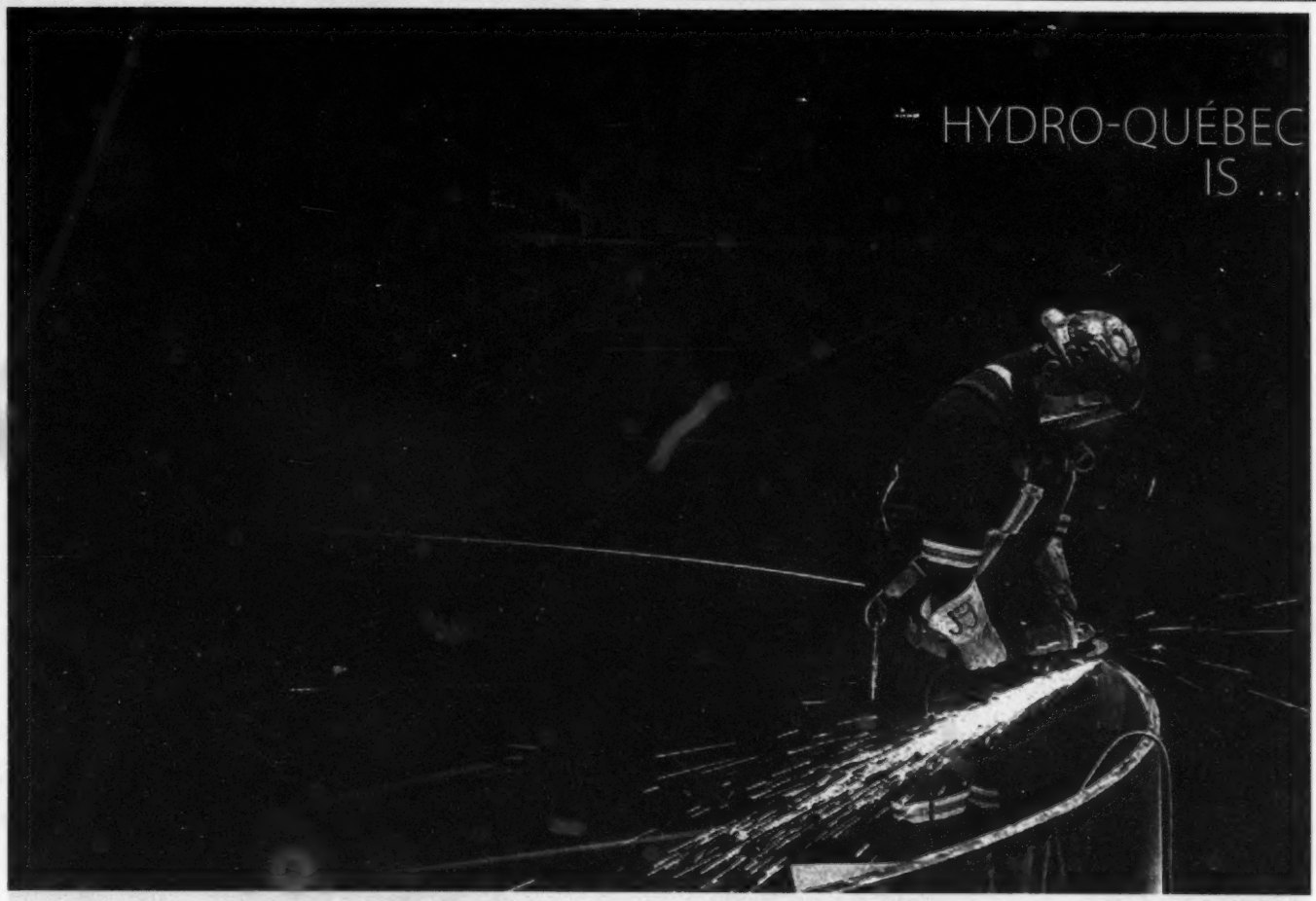

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AT A GLANCE

Hydro-Québec is an electricity generator, transmission provider and distributor forming a company made up of four divisions, with a total installed capacity of 36,671 MW.

HYDRO-QUÉBEC PRODUCTION Generates electricity and sells its surpluses on wholesale markets inside and outside Québec	HYDRO-QUÉBEC TRANSÉNERGIE Operates the most extensive transmission system in North America.	HYDRO-QUÉBEC DISTRIBUTION Provides Quebecers with a reliable supply of electricity.
64 generating facilities connected to the grid, including 59 hydroelectric generating stations	33,453 km of lines	112,089 km of lines
36,519 MW in installed capacity	514 substations	4,011,789 customer accounts
Water used to generate 98% of output	18 interconnections with systems in Ontario, New Brunswick and the U.S. Northeast	166.9 TWh of electricity sales in Québec in 2010
Storage capacity of 175 TWh, in 26 large reservoirs	$1,248 million in investments in 2010	$944 million in investments in 2010, including $216 million in the Energy Efficiency Plan (EEP), which targets 11 TWh in energy savings by 2015
Net exports of $1,034 million in 2010	Regulated division	Regulated division
$1,900 million in investments in 2010		

HYDRO-QUÉBEC ÉQUIPEMENT ET SERVICES PARTAGÉS AND SEBJ Acts as the prime contractor for construction projects for Hydro-Québec Production (HQP) and Hydro-Québec TransÉnergie (HQT)
Volume of activity – Construction segment: $2.6 billion
Main customers – Construction segment: 62% HQP, 38% HQT
Optimization of each site according to its own specific characteristics
Mitigation measures and environmental follow-up (development of spawning grounds, tracking of caribou, etc.)

Hydro-Québec is a government-owned corporation whose sole shareholder is the Québec government, which guarantees most of its borrowings unconditionally. To meet its financing needs, Hydro-Québec turns to the bond market.

- $38.7 billion in long-term debt,[3] including $36.9 billion in guaranteed debentures and medium-term notes

The company is a major economic player that makes a responsible contribution to Québec society.

- $65.9 billion in high-quality assets
- 23,092 employees at December 31, 2010
- $4.2 billion in investments in property, plant and equipment, intangible assets and the EEP in 2010
- Approximately $100 million in annual budget for its research institute, IREQ

1. Hydro-Québec Distribution operates one hydroelectric generating station and 24 thermal generating stations supplying customers on off-grid systems.
2. Société d'énergie de la Baie James
3. Including current portion and perpetual debt.

1 *To fulfill its mission to the best of its capabilities, Hydro-Québec counts on skilled, motivated employees.*

2 *Daniel-Johnson dam in the Manic-Outardes complex.*

3 *The National Association of Regulatory Utility Commissioners (NARUC), based in Washington, has recognized hydropower as a clean, renewable energy source.*

4 *Rapides-des-Quinze generating station on the Rivière des Outaouais.*

HYDRO-QUÉBEC PRODUCTION

Hydro-Québec Production develops the province's hydropower potential and works with Hydro-Québec Équipement et services partagés and Société d'énergie de la Baie James to carry out development and refurbishment projects. The division supplies the domestic market with electricity and sells its surpluses on wholesale markets in northeastern North America.

The activities of Hydro-Québec Production are not regulated. However, the division must provide Hydro-Québec Distribution with a heritage pool of 165 TWh of electricity to supply Québec customers.

PROGRESS OF MAJOR GENERATION PROJECTS[1]

The division's investments totaled $1,900 million in 2010, compared with $2,033 million in 2009. A large part of this amount—$1,234 million—was allocated to development projects, in particular the Eastmain-1-A/Sarcelle/Rupert development and the Romaine complex.

Day-to-day asset maintenance and improvement activities came to $666 million.

	Commissioning	Construction	Capacity	Output	Investments
Under construction					
Eastmain-1-A and Sarcelle powerhouses and Rupert diversion	2009–2012	2007–2012	918 MW	8.7 TWh	$5.0 billion[2]
Romaine complex	2014–2020	2009–2020	1,550 MW	8.0 TWh	$6.5 billion[2]

1. In addition to these major projects, 106 projects to refurbish or refit generating facilities were under way in 2010.
2. Excluding agreements with local communities.

ELECTRICITY SALES OUTSIDE QUÉBEC

Net electricity exports amounted to $1,034 million in 2010 for net reservoir drawdown of 12.6 TWh, compared with $1,258 million for 18.5 TWh in 2009. The unit contribution was 8.2¢/kWh in 2010, versus 6.8¢/kWh in 2009.

VERMONT-QUÉBEC AGREEMENT

On August 12, 2010, our subsidiary H.Q. Energy Services (U.S.) Inc. signed an agreement with two of the largest power distributors in Vermont, Green Mountain Power and Central Vermont Public Service. Hydro-Québec will supply them with up to 225 MW of electricity for 26 years, starting in 2012. Since June 2010, the Vermont legislature has recognized hydropower as a renewable form of energy.

HYDRO-QUÉBEC TRANSÉNERGIE

Hydro-Québec TransÉnergie operates the most extensive transmission system in North America. The division markets system capacity and manages power flows across Québec. It works diligently to ensure system development and asset sustainment. It carries out its construction and refurbishment activities with Hydro-Québec Équipement et services partagés and Société d'énergie de la Baie James.

PROGRESS OF MAJOR TRANSMISSION PROJECTS

Hydro-Québec TransÉnergie's investments totaled $1,248 million in 2010. A third of this amount—$423 million—was devoted to increasing transmission capacity and bringing new hydropower and wind power facilities onto the grid. These projects included:

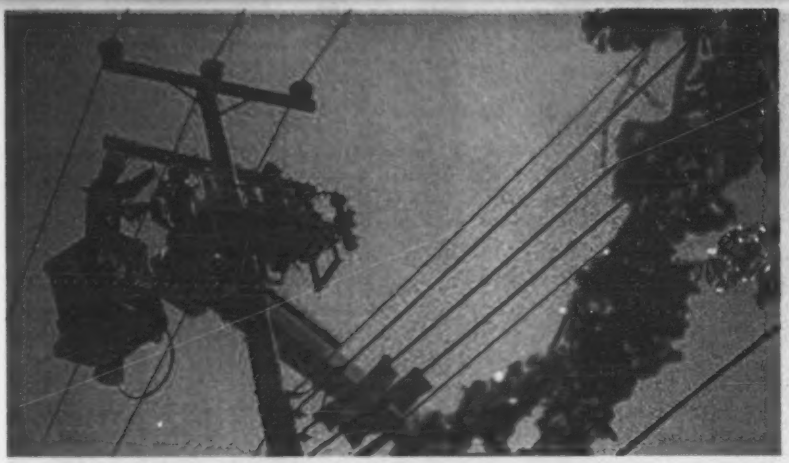
- work to connect Eastmain-1-A and Sarcelle powerhouses to the grid
- completion of the Chénier–Outaouais line (1,250-MW interconnection with Ontario)
- completion of construction of Anne-Hébert substation
- continuation of activities to integrate the output of wind farms in the Gaspésie region

The remainder—$825 million—was invested in asset sustainment.

CONDITIONS APPROVED BY THE RÉGIE DE L'ÉNERGIE FOR 2010

Transmission operations are regulated by the Régie de l'énergie on the basis of cost of service. The rates and conditions of service, also approved by the Régie, ensure non-discriminatory access to the system, in compliance with North American regulatory provisions.

Capitalization	70% debt 30% equity
Return on rate base	7.439%
Return on equity	7.587%
Revenue requirement	$2,999 million
Rate base	$16,509 million



1 *Hydro-Québec handled a momentary peak load of 38,286 MW on January 24, 2011, at 7:38 a.m.*

2 *Power system electricians at Delson substation, near Montréal.*

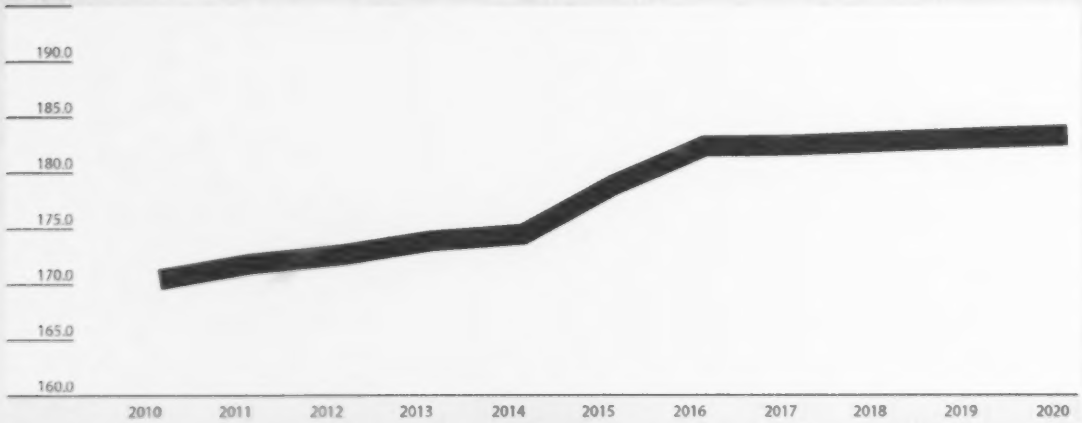
3 *Installation of a capacitor bank as part of the Addition 1,000 Mvar project.*

HYDRO-QUÉBEC DISTRIBUTION

Hydro-Québec Distribution ensures a reliable supply of electricity for the Québec market. To meet demand, the division is supplied with a heritage pool of 165 TWh by Hydro-Québec Production. For needs beyond that volume, it purchases electricity under market conditions. The division relies on a flexible, diversified energy portfolio that allows it to handle fluctuations in demand. The resources provided to meet demand on the domestic market are laid out in the *Electricity Supply Plan 2011–2020*.

FORECASTED ELECTRICITY SALES IN QUÉBEC[1]

(in TWh)



1. 2010: Sales reported as at December 31 and standardized for weather conditions.
2011 to 2020: Sales forecasted in Hydro-Québec Distribution's *Electricity Supply Plan 2011-2020*.

REGULATION OF ELECTRICITY DISTRIBUTION OPERATIONS

Electricity distribution operations are regulated on the basis of cost of service. The rates and conditions of electricity service are approved by the Régie de l'énergie.

Capitalization	65% debt 35% equity
Return on rate base	7.542%
Return on equity	7.849%
Revenue requirement	$10,334 million
Rate base	$10,045 million
Rate adjustment Effective April 1, 2010 (authorized) Effective April 1, 2011 (requested)	 0.35% 0%

Hydro-Québec was named Utility of the Year by the American magazine Electric Light & Power. *It earned this honor for several reasons: environmental responsibility, customer satisfaction, transmission methods, rates and profitability.*

INTEGRATED ENTERPRISE RISK MANAGEMENT

Each division or corporate unit determines its main risks, and then applies mitigation measures. The consolidated portfolio of risks is presented every year to the Board of Directors which, with Management, sets the company's risk tolerance threshold and approves the necessary frameworks. To manage market and credit risks, a team of specialists that is independent of the groups carrying out the transactions continually monitors a number of risk indicators associated with financial and energy transactions, and recommends risk reduction strategies and controls.

MAIN FINANCIAL AND OPERATIONAL RISKS AND OVERVIEW OF MITIGATION MEASURES

	Risks	Mitigation Measures
FINANCIAL RISKS	Market risk Volatility of exchange rates, interest rates and aluminum prices	Short term: active integrated management and negotiation of derivative hedging instruments Medium and long term: matching of compensatory factors such as debts in U.S. dollars as a hedge against sales in this currency, currency swaps and interest rate swaps
	Credit risk	• Implementation and monitoring of guidelines and limits for risk concentration and level of counterparty exposure • Negotiation with counterparties with a high credit rating (95% of counterparties rated A or higher) and agreements to limit the market value of exposure to counterparties' credit risk
GENERATION	Runoff	• Optimization of hydroelectric generating station operations to minimize water use • Reservoir storage management on a multiyear basis to maintain an adequate margin between generating capacity and overall commitments
	Risk related to marketing activities Runoff, volatility of electricity prices, unavailability of generating and transmission equipment	• Integrated evaluation of components of risk related to Hydro-Québec Production's marketing activities • Monitoring of trends in wholesale markets and use of derivative hedging instruments • Equipment maintenance and upgrade programs to maximize availability
TRANSMISSION	Asset sustainment and continuity of transmission service	• Application of North American Electric Reliability Corporation and Northeast Power Coordinating Council reliability standards • Reliability coordination for transmission systems in Québec and filing of reliability standards applicable to Québec generating facilities and transmission systems with the Régie de l'énergie • Transmission asset sustainment strategy and optimal management of peak annual load
DISTRIBUTION	Asset sustainment and service quality	• Compliance with applicable standards for overhead and underground systems • Asset renewal strategy • Vegetation control • Asset maintenance program
	Fluctuations in demand for electricity due to current economic situation (under normal weather conditions)	• Refining of method for forecasting electricity demand

COMPARISON OF ELECTRIC UTILITIES IN NORTH AMERICA

Financial Data and Operating Statistics[1] (Comparison in dollars of origin)	Canadian utilities				American utilities	
For the year ended	Hydro-Québec* Dec. 31, 2009 C$	BC Hydro March 31, 2010 C$	Manitoba Hydro March 31, 2010 C$	Ontario Power Generation Dec. 31, 2009 C$	Southern Company Dec. 31, 2009 US$	Tennessee Valley Authority Sept. 30, 2009 US$
OWNERSHIP	Government of Québec	Government of British Columbia	Government of Manitoba	Government of Ontario	Public company	Government of the United States
STRUCTURE	Integrated	Integrated	Integrated	Generation	Integrated	Generation/ Transmission
OPERATING STATISTICS						
Sales (TWh)	**188.7**	99.1	30.4	92.5	186.1	163.8
• Domestic	**165.3**	50.2	20.5	not applicable	186.1	not applicable
• Export	**23.4**	48.9	9.9	not applicable	not applicable	not applicable
Installed capacity (MW)	**36,813**	11,345	5,501	21,729	42,932	33,716
Output (TWh)	**166.8**	43.8	34.0	92.5	187.0	144.8
• Hydroelectric (%)	**97.6**	98.7	99.7	39.1	4.0	7.9
• Nuclear (%)	**2.1**	0.0	0.0	50.6	16.0	36.6
• Thermal (%)	**0.3**	1.3	0.3	10.3	80.0	55.5
Number of customer accounts (thousands)	**3,960**	1,831	797	not applicable	4,402	not applicable
Total workforce	**23,090**	5,842	6,201	12,100	26,112	12,219
FINANCIAL DATA (in millions of dollars)						
Revenue	**12,333**	3,822	2,053	5,613	15,743	11,255
Operating income	**5,269**	866	573	943	3,268	1,973
Net income	**2,871**	447	163	623	1,643	726
Investments[2]	**4,050**	1,554	1,063	754	4,670	2,203
Property, plant and equipment	**53,824**	13,822	10,128	12,836	39,230	26,761
Total assets	**64,992**	18,093	12,437	27,584	52,046	40,017
Long-term debt	**37,054**	8,631	7,406	3,068	18,131	21,788
Equity	**18,419**	2,674	2,524	7,477	15,585	4,218

1. Certain data have been adjusted to provide a standard basis for comparison.
2. Property, plant and equipment and intangible assets.

* Certain data include adjustments relating to continuing operations and stemming mainly from the change in the accounting policy regarding the depreciation method for property, plant and equipment. This change is described in Note 2 to the consolidated financial statements in Hydro-Québec's *Annual Report 2010*.

FINANCING

FINANCING AT HYDRO-QUÉBEC, PAST AND PRESENT

When it was first established in 1944, Hydro-Québec needed to develop its generating capability significantly to meet growing electricity demand. It embarked on an extensive building phase and reached agreements to acquire independent power distributors. Its new hydropower projects of the 1950s and 1960s (Bersimis, Carillon, Manic-Outardes, Churchill Falls) all required major financing.

In the early 1970s, when construction in the Baie-James region got under way, Hydro-Québec's name was already well established on the leading financial markets (Canada, United States, Switzerland, Germany). Funds markets in the Middle East (1973–1974), private markets in Japan (1977) and Holland (1982), the British public market (1981) and the ECU (*European Currency Unit*) section of the European markets then joined the list of buyers of securities issued by Hydro-Québec.

From 1979 to 1981, Hydro-Québec was the fourth-largest borrower on the U.S. public bond market. The company's borrowing program reached a high point in 1991, with requirements totaling $5.9 billion.

From 2011 to 2013, cash requirements should total approximately $3.3 billion per year.

1947	First major issue by Hydro-Québec: $112.5 million at 2% interest, underwritten by Canadian banks
1953	First bond issue by Hydro-Québec in the U.S.
1966	First issue of short-term notes by Hydro-Québec in the U.S.
1969	First issue in U.S. dollars on the European market $500-million issue to finance the Churchill Falls generating station First bond issue in German marks
1972	First bond issue in Swiss francs
1975	First issue in Canadian Eurodollars
1976	Private offering of $1 billion in the U.S., a record amount at the time
1981	First bond issue in pounds sterling
1993	US$1.5-billion issue on the American market, a record amount at the time

◀ *Turbine pit at Eastmain-1-A powerhouse in the Baie-James region.*

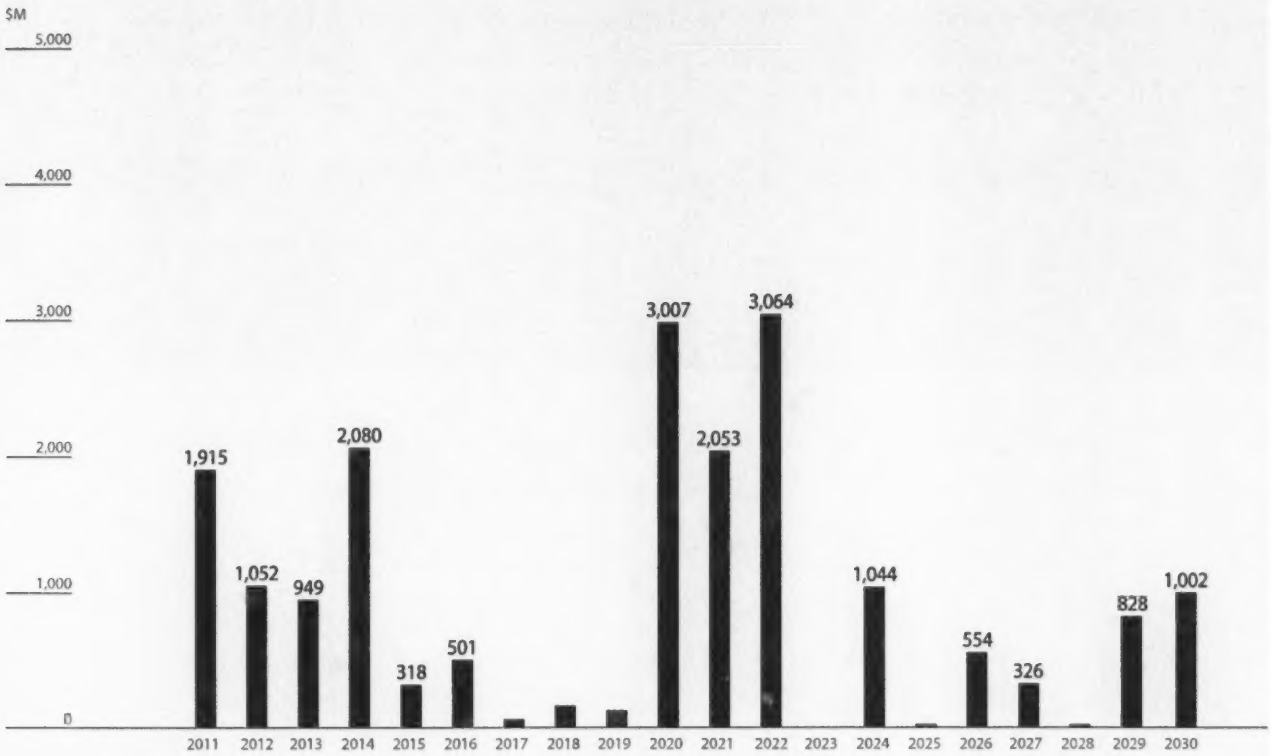
FINANCING OBJECTIVES AND STRATEGIES AND DEBT MANAGEMENT

OBJECTIVES	STRATEGIES
1. Maintain the presence and impact of Hydro-Québec on capital markets	• Plan bond issuance—in particular, series maturing in 2035, 2040, 2045 and 2050—in order to increase market liquidity – These long-term bonds are linked to the service life of our property, plant and equipment. • Stagger debt maturities in order to maintain the annual financing program at a stable level – For the 2015–2019 period, Hydro-Québec has a certain leeway in terms of maturities—if the markets are not favorable for issuing the long-term portion, the company could issue shorter-term bonds without compromising the financing program for the following years. • Focus on strategically important capital markets, in particular the Canadian bond market
2. Diversify Hydro-Québec's funding sources while minimizing foreign exchange risk	• Maintain access to foreign capital markets, particularly the U.S. dollar market • Use swaps to hedge financing in foreign currencies • Secure financing in the lowest-cost market
3. Manage Hydro-Québec's debt effectively	• Redeem debt prior to maturity whenever such operations allow Hydro-Québec to reduce the cost of its debt

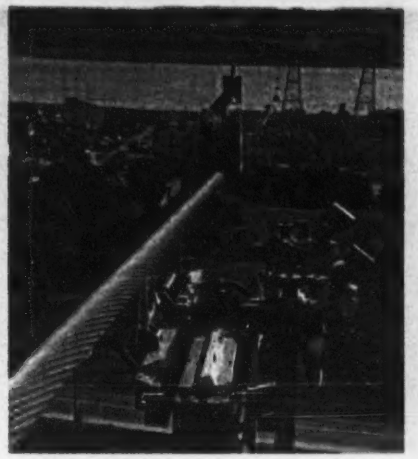
1, 2, 3, 4 *The LineScout robot allows hard-to-reach, live transmission lines to be inspected safely and with great precision.*

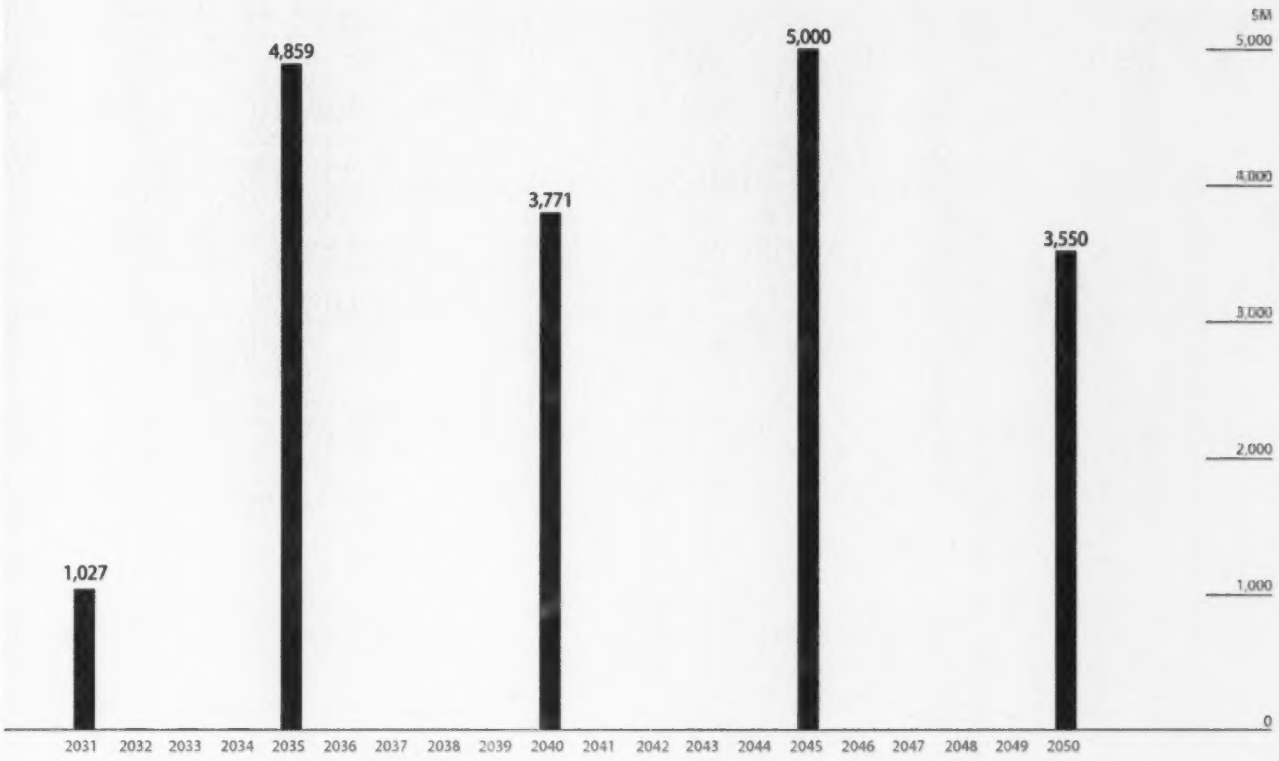
In 2010, Hydro-Québec's research institute (IREQ), Hydro-Québec TransÉnergie and the British Columbia Transmission Corporation won the 2010 Edison Award for the LineScout's contribution to the power industry.

DEBT MATURITY 2011–2050[1]



1. The above graph shows cash payments related to bond and medium-term note maturities for the next 40 years, representing the par value of the debt as at December 31, 2010. In the financial statements, the long-term debt has been shown at the amortized cost since January 1, 2007, except for deep discount and high premium bonds, which were already shown this way prior to that date.

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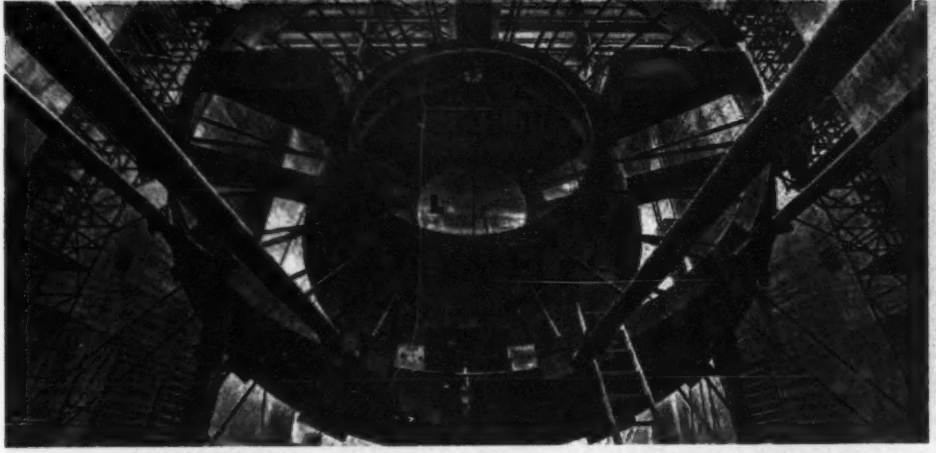
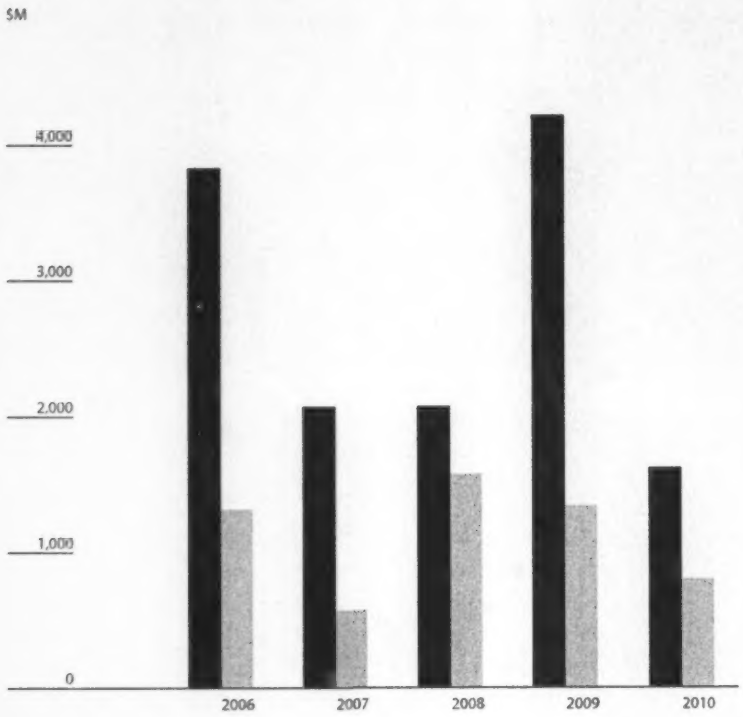


1 *At Sarcelle powerhouse, currently under construction, bulb-type units are being used for the first time at Hydro-Québec. These generating units housed within a watertight metal casing work well with low heads associated with strong flows.*

2, 3 *In 2010, Hydro-Québec Production invested $666 million in refitting and asset sustainment initiatives.*

FINANCING NEEDS 2006–2010[1]

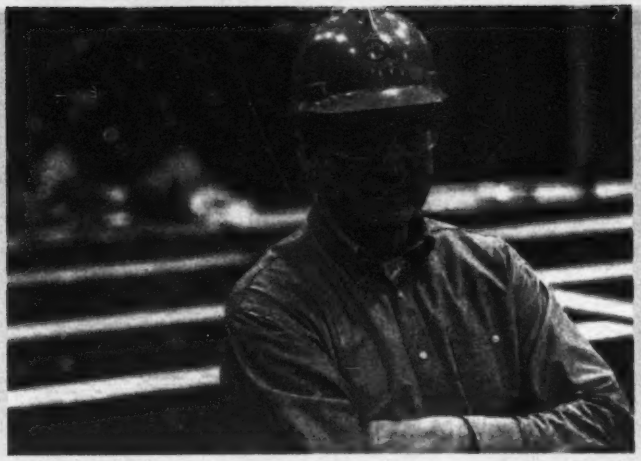


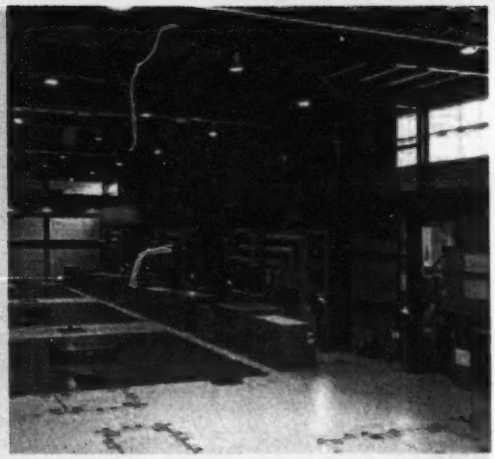
	2006	2007	2008	2009	2010
■ Gross borrowing[2]	3,781	2,028	2,029	4,194	1,599
Net borrowing	1,298	563	1,551	1,320	794

1. The analysis deals with the financing activities of Hydro-Québec, excluding its subsidiaries and holdings.
2. Excluding net cash receipts and payments relating to credit risk management.

Hydro-Québec manages its credit risk using a number of methods, including the adoption of credit limits for each counterparty and the implementation of risk mitigation agreements. Changes in the market value of the financial instruments subject to these agreements gave rise to net cash payments of $52 million in 2010 and net cash payments of $1.8 billion in 2009.

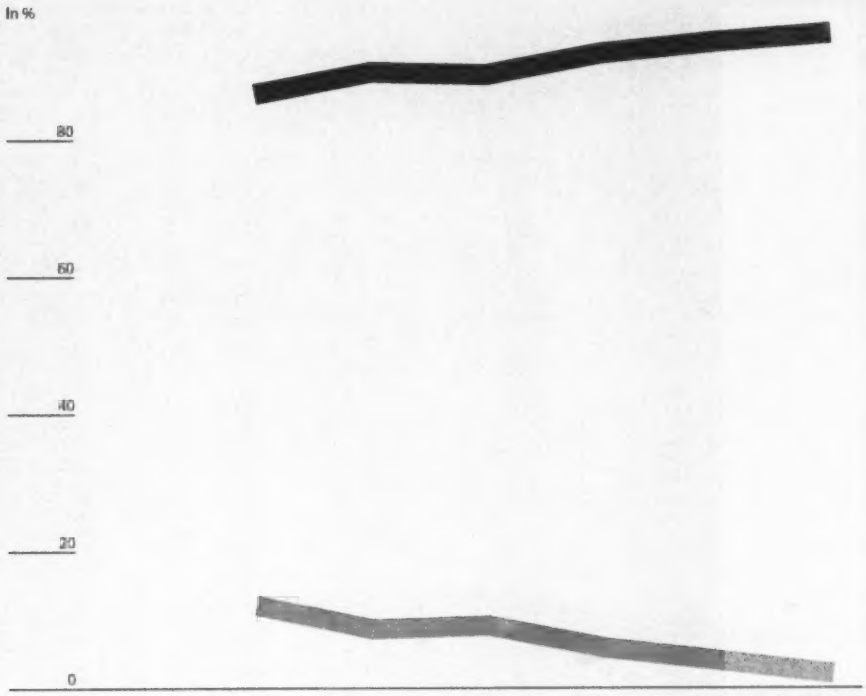
Our 2011 borrowing program should reach approximately $3.5 billion.





BREAKDOWN OF DEBT BY REPAYMENT CURRENCY 2006–2011[1]

Hydro-Québec uses swaps to alter the currency breakdown of its debt.



	2006	2007	2008	2009	2010	Forecast 2011
Canadian dollars (%)	87.5	90.8	90.5	93.5	95.2	96.9
U.S. dollars (%)	12.5	9.2	9.5	6.5	4.8	3.1

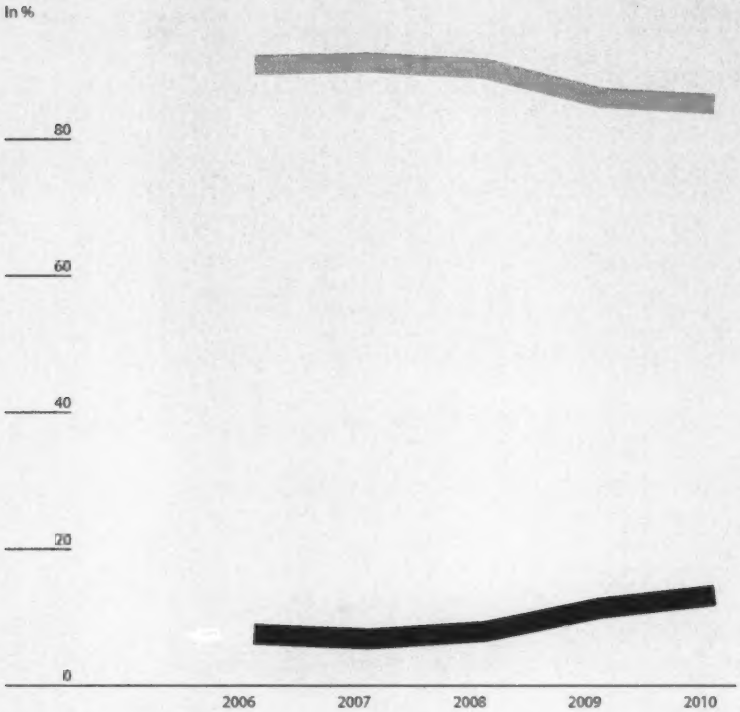
1. Debt including perpetual debt and swaps of Hydro-Québec, excluding subsidiaries and holdings. The debt and swaps are evaluated at par value and translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.

1 *These streamlined tubular steel poles blend into their surroundings more easily.*

2 *Transmission lines and substations have a service life of 30 to 50 years, while hydroelectric generating facilities last 40 to 100 years.*

3 *A safe, harmonious work environment is an essential component of the company's success.*

BREAKDOWN OF TOTAL DEBT BY FIXED AND FLOATING RATE 2006–2010[1]



In 2010, we met our borrowing requirements by reopening, three times, the fixed-rate bond issue maturing in February 2050. These transactions raised $1.6 billion.

	2006	2007	2008	2009	2010
Fixed-rate (%)	91.8	92.2	91.1	87.4	**86.0**
Floating-rate (%)	8.2	7.8	8.9[2]	12.6[2]	**14.0**[2]

1. The analysis deals with the financing activities of Hydro-Québec, excluding its subsidiaries and holdings. The debt is translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.
2. Excluding swaps related to credit risk mitigation.

EVOLUTION OF COMPONENTS OF TOTAL DEBT 2006-2010[1]

(in millions of dollars)

	2006	2007	2008	2009	2010[2]
Long-term debt	32,992	33,135	35,261	37,093	**36,491**
Current portion of long-term debt	1,061	1,085	767	582	**1,930**
Perpetual debt	337	286	355	303	**288**
Total debt	34,390	34,506	36,383	37,978	**38,709**

1. The analysis deals with the financing activities of Hydro-Québec, excluding its subsidiaries and holdings. The preceding table shows the amortized cost of the debt translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date, with the exception of the year 2006. Prior to January 1, 2007, the long-term debt was shown at par value, except for deep discount and high premium bonds, which were shown at their amortized cost.
2. Exchange rate: C$/US$0.9946.

AVERAGE MATURITY OF DEBT 2006–2010[1]

In years

	2006	2007	2008	2009	2010
Average maturity of borrowings for the year	35.4	37.6	36.8	22.0	39.1
Average maturity of debt	17.3	18.0	19.1	19.0	19.1

Hydro-Québec issues long-term bonds linked to the service life of its assets. The average maturity of borrowings for 2010 rose relative to 2009 as a result of the issuance of fixed-rate debt maturing in 2050.

1. The analysis deals with the financing activities of Hydro-Québec, excluding its subsidiaries and holdings.

1, 2 *Hydro-Québec Production will commission the first generating unit at Sarcelle powerhouse in 2011.*

3 *Advanced prefabrication methods mean that powerhouse superstructures go up much faster than in the past.*

SOURCES OF FINANCING

Type of financing	Amount authorized by the Board of Directors	Market	Maturity	Outstanding as at December 31, 2010
Credit lines	C$500 million[1] or US$500 million[1]			C$5 million
Credit facility[2]	US$2,000 million		US$360 million in 2012 US$1,640 million in 2013	–
Commercial paper[2]	US$2,250 million or equivalent in C$	United States or Canada	Max. 364 days Max. 365 days	C$8 million
Medium-term notes[2]	US$3,000 million or equivalent in other currencies	United States	9 months or longer	US$400 million
	C$20,000 million or equivalent in US$	Canada	1 year or longer	C$12,256 million

1. Of this amount, $367 million is covered by operating credit line agreements with financial institutions.
2. Guaranteed by the Québec government.

GUARANTEE OF HYDRO-QUÉBEC'S DEBT

Hydro-Québec's long-term debt at December 31, 2010 includes $36,932 million in debentures and medium-term notes that are guaranteed unconditionally and irrevocably by the Québec government. Short-term borrowing programs, such as commercial paper and standby lines of credit, are also guaranteed by the government.

Certain private investments and capital leases, totaling $781 million, are not guaranteed by the Québec government.

ISSUANCE OF DEBENTURES IN 2010

Market	Delivery Date	Series	Coupon (%)	Maturity	Amount (C$M)	Currency	Yield (%)
CA	October 19, 2010	JN	5.000	February 15, 2050	500	CAD	4.287
CA	August 26, 2010	JN	5.000	February 15, 2050	500	CAD	4.483
CA	March 2, 2010	JN	5.000	February 15, 2050	500	CAD	4.752

◀ *Inside a scroll case at Eastmain-1-A powerhouse.*

FINANCIAL RATIOS

	2006	2007	2008	2009	2010
Coverage ratios					
Reported interest coverage[1]	2.06	2.13	2.12	2.17	**1.92**
Restated interest coverage[1,*]	2.01	2.09	2.07	2.11	–
Interest coverage before depreciation and amortization[2]	2.87	2.90	3.01	3.05	**2.91**
Liquidity ratios					
Reported net cash flow to fixed assets and intangible assets (in %)[3]	111.9	76.5	86.9	75.9	**76.3**
Restated net cash flow to fixed assets and intangible assets (in %)[3,*]	111.9	76.0	87.7	76.4	–
Reported self-financing (in %)[4]	69.8	63.1	45.7	41.2	**46.8**
Restated self-financing (in %)[4,*]	69.8	63.7	45.7	41.3	–
Funds from operations to average total debt (in %)[5]	13.9	13.7	14.2	13.5	**12.8**
Profitability ratios					
Reported profit margin from continuing operations (in %)[6]	25.1	23.4	23.7	24.6	**20.4**
Restated profit margin from continuing operations (in %)[6,*]	24.1	22.5	22.7	23.3	–
Reported return on equity (in %)[7]	20.6	15.0	15.4	14.3	**14.0**
Restated return on equity (in %)[7,*]	24.8	17.8	18.1	16.5	–
Capital structure ratios					
Reported capitalization (in %)[8]	36.1	37.5	37.7	37.0	**32.1**
Restated capitalization (in %)[8,*]	31.4	33.1	33.4	32.6	–
Dividend[9,10] (in millions of dollars)	2,342	2,095	2,252	2,168	**1,886**

* The comparative data include adjustments relating to continuing operations and stemming mainly from the change in the accounting policy regarding the depreciation method for property, plant and equipment. This change is described in Note 2 to the consolidated financial statements in Hydro-Québec's *Annual Report 2010*.

1. Sum of operating income and net investment income divided by gross interest expense.
2. Sum of operating income before depreciation and amortization and net investment income divided by gross interest expense.
3. Income from continuing operations before amortization, less write-offs and dividend paid, divided by investments in property, plant and equipment and intangible assets.
4. Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities (excluding net disposal (acquisition) of short-term investments) and repayment of long-term debt.
5. Income from continuing operations before amortization and capitalized financial expenses less write-offs, divided by the sum of long-term debt (including current portion), perpetual debt, short-term borrowings and derivative instrument liabilities, less derivative instrument assets (average for the year).
6. Income from continuing operations divided by revenue.
7. Net income divided by average equity less average accumulated other comprehensive income.
8. Equity divided by the sum of equity, long-term debt (including current portion), perpetual debt, short-term borrowings and derivative instrument liabilities, less derivative instrument assets.
9. Dividend declared for a given year is paid the following year.
10. No dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year.

Note: Comparative figures have been reclassified to reflect the presentation adopted in the current year.

Our employees' know-how and commitment play a key role in the company's success.

CREDIT RATINGS

	Long-term debt	Commercial paper
2010		
Moody's	Aa2 stable	P-1
Standard & Poor's	A+	A-1+
Fitch Ratings	AA– stable	F1+
DBRS	A (high) stable	R-1 (middle)
2009		
Moody's	Aa2 stable	P-1
Standard & Poor's	A+	A-1+
Fitch Ratings	AA– stable	F1+
DBRS	A (high) stable	R-1 (middle)

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E-mail: reLinv@hydro.qc.ca

Website:
www.hydroquebec.com/financing

HYDRO-QUÉBEC'S GENERATING FACILITIES[1]

	Commissioning	Installed capacity as at December 31, 2010 (MW)
Hydroelectric generating stations[2]		
Robert-Bourassa	1979–1981	5,616
La Grande-4	1984–1986	2,779
La Grande-3	1982–1984	2,417
La Grande-2-A	1991–1992	2,106
Beauharnois	1932–1961	1,911
Manic-5	1970–1971	1,596
La Grande-1	1994–1995	1,436
René-Lévesque (Manic-3)	1975–1976	1,244
Bersimis-1	1956–1959	1,178
Jean-Lesage (Manic-2)	1965–1967	1,145
Manic-5-PA	1989–1990	1,064
Outardes-3	1969	1,026
Sainte-Marguerite-3	2003	884
Laforge-1	1993–1994	878
Bersimis-2	1959–1960	869
Outardes-4	1969	785
Carillon	1962–1964	753
Toulnustouc	2005	526
Outardes-2	1978	523
Eastmain-1	2006	507
Brisay	1993	469
Péribonka	2007–2008	405
Laforge-2	1996	319
Trenche	1950–1955	302
La Tuque	1940–1955	294
Beaumont	1958–1959	270
McCormick	1951–1965	235
Rocher-de-Grand-Mère	2004	230
Paugan	1928–1956	206
Rapide-Blanc	1934–1955	204
Shawinigan-2	1911–1929	200
Shawinigan-3	1948–1949	194
Manic-1	1966–1967	184
Rapides-des-Îles	1966–1973	176
Chelsea	1927–1939	152
La Gabelle	1924–1931	131
Première-Chute	1968–1975	131
Rapides-Farmer	1927–1947	104
Les Cèdres	1914–1924	103
Rapides-des-Quinze	1923–1955	103
Other (20 generating stations rated less than 100 MW)[3]	1910–2009	835
		34,490
Thermal		
Tracy (steam)	1964–1968	495
Bécancour, La Citière and Cadillac (gas turbine)	1976–1993	881
Other (24 diesel plants)[3]	1946–2010	130
		1,506
Nuclear		
Gentilly-2	1983	**675**

1. In addition to the generating capacity of its own facilities, Hydro-Québec has access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with Churchill Falls (Labrador) Corporation Limited that will remain in effect until 2041. It also purchases all the output from nine privately owned wind farms with a total installed capacity of 659 MW. Moreover, 1,277 MW are available under agreements with other independent suppliers.
2. The installed capacity of a hydroelectric generating station is equivalent to that of its generating units operating in winter conditions (water temperature 5°C).
3. Hydro-Québec Distribution operates one hydroelectric generating station and 24 thermal generating stations supplying customers on off-grid systems.

GLOSSARY

Dividend
Under the *Hydro-Québec Act*, the dividends to be paid by Hydro-Québec are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given financial year, the dividend cannot exceed the distributable surplus, equal to 75% of net income. This calculation is based on the consolidated financial statements.

Energy
A quantity that describes the ability of a system (hydroelectric, thermal, etc.) to do work during a given time and is measured in watthours (Wh). In hydroelectric facilities, the motive power of water is the energy used to operate the turbines and generate electricity. A 1-MW turbine operating at full capacity for one hour will produce 1 MWh of energy. Operating at half capacity for one hour, that same turbine will produce 0.5 MWh.

Government-owned corporation
The Québec government established the Québec Hydro Electric Commission (Hydro-Québec) in 1944, and went on to nationalize electricity in 1963. The company's share capital of $4.4 billion is held by its sole shareholder, the Québec government. Hydro-Québec is not listed on the stock exchange. It turns to the bond market for its financing and pays dividends to its shareholder, when applicable.

Installed capacity
Total rated capacity that a facility's generating equipment can supply. It is generally expressed in megawatts (MW).

Multiyear management
To reduce the impact of extended periods of energy surpluses or deficits, reservoirs managed on a multiyear basis allow the storage of surpluses created by strong runoff or weak demand. Multiyear reserves are used at times of below-average runoff or strong demand.

Partial diversion (Rupert)
The channeling of part of a river's flow to increase inflow to an existing hydroelectric development elsewhere, while maintaining an environmentally acceptable instream flow in the original riverbed.

Power
The capacity to do work; generally expressed in watts (W), kilowatts (kW) or megawatts (MW).

Rate base
The value of assets required to offer a distribution or transmission service upon which Hydro-Québec's regulated divisions are permitted to earn a specified reasonable rate of return as established by the Régie de l'énergie.

Regulatory deferral
The recognition of the decisions of the Régie de l'énergie affects the timing of certain transactions in Hydro-Québec's financial statements. This results in the recognition, in a given period, of amounts to be received from or paid to customers, which will be recovered or settled in subsequent years through the rates set by the Régie. These amounts are called "regulatory deferrals."

Renewable energy
Any natural energy source that is theoretically inexhaustible (solar, wind, tidal and water power) as opposed to fossil fuels which cannot be readily replenished.

Reservoir storage
Accumulated inflows of water eventually intended for electricity generation.

Revenue requirement
Revenues required in order for capital and operating costs to be recouped in conjunction with activities regulated by the Régie de l'énergie.

System control
Set of operations carried out to monitor power flows and system performance in order to optimize utilization of energy resources.

Theoretical wind power load factor
On the basis of statistical and meteorological studies, Hydro-Québec has calculated that total wind farm output at peak periods represents approximately 35% of the farms' total installed capacity.

Water-power royalties
Amounts paid by Hydro-Québec Production to the Québec government under the terms of the *Watercourses Act*. They have been applicable since 2007 to all hydropower producers in Québec and are calculated on the basis of kilowatthours generated in the province.

UNITS OF MEASURE

kV
kilovolt (unit of voltage)

MW
megawatt (unit of power)

kWh
kilowatthour (unit of energy)

MWh
megawatthour, or one thousand kilowatthours

GWh
gigawatthour, or one million kilowatthours

TWh
terawatthour, or one billion kilowatthours

$M
millions of dollars

$B
billions of dollars

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CUE CARD 2010–2011

Hydro-Québec generates, transmits and distributes electricity, mainly using renewable energy sources, in particular hydroelectricity. Its transmission and distribution activities are regulated by the Régie de l'énergie. To meet growing demand, it is continuing to develop hydropower, complemented by wind power purchased from independent producers. In addition, it conducts research and develops new technologies in energy-related fields. It also actively promotes energy efficiency.

Hydro-Québec's sole shareholder is the Québec government, which guarantees most of its borrowings.

MAJOR ASSETS

Water used to generate **98%** of output	**26** large reservoirs with a storage capacity of **175 TWh**	**36,671 MW** in installed capacity	Average cost of **2.14¢** per kilowatthour

Rates among the lowest in North America

KEY STATISTICS[1]

Years ended December 31	**2010**	2009	2008	2007	2006
(in millions of C$)					
Revenue	**12,338**	12,333	12,716	12,326	11,162
Expenditure					
Operations	**2,581**	2,527	2,503	2,556	2,392
Electricity and fuel purchases	**1,390**	1,207	1,406	1,555	1,315
Depreciation and amortization	**2,605**	2,372	2,457	2,083	2,109
Taxes	**909**	928	1,093	820	534
Regulatory deferrals	**(188)**	30	(72)	29	(93)
	7,297	7,064	7,387	7,043	6,257
Operating income	**5,041**	5,269	5,329	5,283	4,905
Financial expenses	**2,526**	2,398	2,443	2,510	2,212
Income from continuing operations	**2,515**	2,871	2,886	2,773	2,693
Income from discontinued operations	**–**	–	129	25	944
Restated net income*	**–**	2,871	3,015	2,798	3,637
Reported net income	**2,515**	3,035	3,141	2,907	3,741
DIVIDEND	**1,886**	2,168	2,252	2,095	2,342
BALANCE SHEET SUMMARY (as at December 31)					
Reported total assets	**65,898**	68,978	66,789	64,866	63,254
Restated total assets*	**–**	64,992	62,968	61,167	59,698
Long-term debt, including current portion and perpetual debt	**38,660**	37,943	36,415	34,534	34,427
Reported equity	**18,566**	22,395	22,062	20,892	18,840
Restated equity*	**–**	18,419	18,250	17,206	15,264
INVESTMENTS FOR CONTINUING OPERATIONS AFFECTING CASH					
Property, plant and equipment and intangible assets	**4,004**	4,050	3,717	3,418	3,352
Costs related to Energy Efficiency Plan	**216**	257	236	172	149
Total investments	**4,220**	4,307	3,953	3,590	3,501
FINANCIAL RATIOS*					
Interest coverage	**1.92**	2.11	2.07	2.09	2.01
Return on equity (%)	**14.0**	16.5	18.1	17.8	24.8
Profit margin from continuing operations (%)	**20.4**	23.3	22.7	22.5	24.1
Capitalization (%)	**32.1**	32.6	33.4	33.1	31.4
Self-financing (%)	**46.8**	41.3	45.7	63.7	69.8
OTHER DATA					
Average rate increase from January 1 to December 31 (%)	**0.6**	1.6	2.7	2.8	4.3
Installed capacity (MW)[2]	**36,671**	36,813	36,432	35,654	35,322
Customer accounts (thousands)	**4,012**	3,960	3,913	3,869	3,815
Employees	**23,092**	23,090	22,916	23,069	22,587

1. Certain comparative data have been reclassified to reflect the presentation adopted for the current year.
2. In 2010, Hydro-Québec decommissioned a unit at Tracy generating station. In addition to the generating capacity of its own facilities, the company has access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with Churchill Falls (Labrador) Corporation Limited that will remain in effect until 2041. It also purchases all the output from nine privately owned wind farms with a total installed capacity of 659 MW. Moreover, 1,277 MW are available under agreements with other independent suppliers.

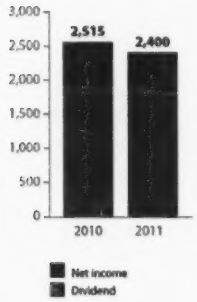
* The comparative data include adjustments relating to continuing operations and stemming mainly from the change in the accounting policy regarding the depreciation method for property, plant and equipment. This change is described in Note 2 to the consolidated financial statements in Hydro-Québec's *Annual Report 2010*.

HIGHLIGHTS 2010

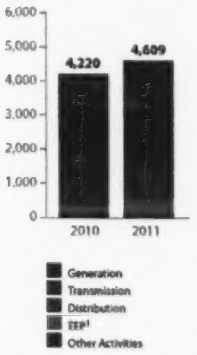
- H.Q. Energy Services (U.S.) Inc., a subsidiary of Hydro-Québec, Green Mountain Power and Central Vermont Public Service signed a 225-MW agreement that will run from 2012 to 2038. Since June 2010, Vermont has recognized hydropower as a clean, renewable energy source.
- A transmission service agreement was signed by Hydro Renewable Energy Inc. (HRE), a subsidiary of Hydro-Québec, and Northern Pass Transmission LLC, which is owned by Northeast Utilities and NSTAR, two American power distributors. HRE thus would obtain transmission rights on a 1,200-MW line connecting the Canada–U.S. border and New Hampshire.

2011 FINANCIAL OUTLOOK

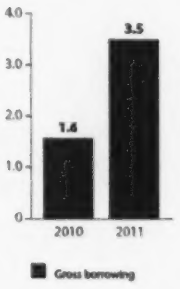
NET INCOME AND DIVIDEND
(in millions of C$)



INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND THE EEP[1]
(in millions of C$)



FINANCING NEEDS
(in billions of C$)



Our borrowing programs will begin to grow in 2011, and will total approximately $3.3 billion in each of the next three years, while investments will be around $5.0 billion annually over the same period.

1. Energy Efficiency Plan.

HYDRO-QUÉBEC: A QUALITY INVESTMENT

Security	Characteristics of the Debt (December 31, 2010)
Unconditional and irrevocable guarantee by the Québec government on most of Hydro-Québec's debt (debentures, medium-term notes, commercial paper)	Average term: 19.1 years
	Fixed rate: 86.0%
	Floating rate: 14.0%
	Breakdown by repayment currency: C$95.2% US$4.8%

Credit Ratings (December 31, 2010)		
	Long-term debt	Commercial paper
Moody's	Aa2 stable	P-1
Standard & Poor's	A+	A-1+
Fitch Ratings	AA– stable	F1+
DBRS	A (high) stable	R-1 (middle)

For more information, please consult our Web site: **www.hydroquebec.com/financing**
You can also contact the Investor Relations team by e-mail: **rel.inv@hydro.qc.ca**

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